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THESIS

# Multiple Banking Systems

by

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# I. INTRODUCTION

## 1. Fundamental Concepts

One of the most important developments in our modern economy is the concentration of business activity. Since the latter part of the nineteenth century business has largely developed under the corporate system. One of the great advantages of this system is that of obtaining a great amount of working capital.

As business has changed in size and form of organization, the need for an adaptable banking system has become inevitable; for banking has developed to serve the needs of business. Industrial transformations have been gradual and accordingly, slight changes in banking have developed. At times, however, there has been the need for widespread and fundamental changes. It has been at these periods in history that public interest in the problem has been aroused. At present there are many who feel that some system of multiple banking should be inaugurated in the United States in order to alleviate the evils of our present unit system of banking.

In order to understand the subject clearly it is necessary to define the terms used in connection with banking systems. The United States, unlike many European countries, has the so-called "unit" system of banking. Under this system each bank has its own separate corporate structure

and is owned and operated as a separate organization. Contrary to this is what is known as a multiple banking system. This is an extensive term, for multiple banking is the term used to indicate any system in which there are two or more banking offices under the same ownership and control. The system has been commonly broken down into three groups: chain, group and branch banking.

Chain banks, while not always distinguished from group banking, will be considered as that system in which two or more separate corporate banks are controlled by one or more individuals through stock ownership. This form of banking preceded the group system and although not prevalent, still exists in the agricultural regions of the South and West (1).

The group system, on the other hand, is generally defined as that method by which two or more banks are owned and operated by a holding company. The holding company (sometimes called "bancorporation") does no banking business but exists solely for the ownership and control of a group of banks. The fundamental difference between chain and group banking is that the group always has some definite form of central management while the chain has not (2).

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1. "Selected Articles on Chain, Group and Branch Banking," ed. Virgil Willit, New York, 1930, p. 16.
2. Idem.

Branch banking, the most widely known (and criticized) form of multiple banking is a system by which two or more banking offices are maintained by a single banking institution. These offices perform all of the banking functions but do not have a separate corporate organization. The parent bank, operating in one district manages and is aided by its various branches outside the district. Hence there are three definite multiple banking systems, chain, group and branch banking, offered as solutions to the problems evolved from our present widespread system.

2. The Controversy of Multiple Banking

The economic change which has been brought about in the United States in the past fifty or sixty years has led the public

> "....to accept industrial concentration as essential to improve standards of living, wages, and production.....It is hardly reasonable to expect that banking, in its individualistic and isolated sense, can survive against such new elements in economic life" (1).

Banking, in order to keep up with business has periodically felt the need for fundamental changes. Canada's expansion of branches has influenced the banking trend in this country (2) and because of the many failures the people have

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1. Gaines T. Cartinhour, "Branch, Group and Chain Banking," New York, 1931, p. 1-2.
2. See Canada in Chapter III, p. 33-40.

looked upon branch banking as a possible solution. In the period 1921-1936 the number of bank suspensions among the smaller banks was over 50 per cent of those in existence in 1920 (1). This was largely due to the great number of failures during the bank holiday in 1933. As may be noted, the number of failures among the large banks was much less. Since multiple banking provides a greater amount of capital it may solve the problem of bank failures.

As most small communities have inadequate banking facilities, multiple banking systems offer these outlying communities the full services of a complete banking organization. Multiple banking furnishes many more functions than those provided by a small unit bank. The main objection which some people raise to this opinion is that managers who are sent from the head office to the small communities do not know the financial needs of the particular community. This may be true in some cases and it may not in others. It depends principally on the personnel of the banks. Canada has found that her system of branch banking has worked out exceptionally well in most cases in spite of this problem. Other foreign countries practising branch banking have also found the system satisfactory.

There are many reasons for adopting such a method of banking; but like all debatable questions, there are

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1. Table I, p. 8.

TABLE I

NUMBER OF BANK SUSPENSIONS DURING 1921-1936

BY SIZE OF CAPITAL STOCK, ALL BANKS

| Size Group Capital Stock (Par Value) | Number Active Banks June 30, 1920 | Total Suspensions | Number Suspensions per 100 Active Banks |
|---|---|---|---|
| Under $25,000 | 8,240 | 4,661 | 52.7 |
| 25,000 | 6,399 | 3,441 | 52.9 |
| 25,001 to 49,999 | 2,395 | 1,394 | 57.1 |
| 50,000 | 4,504 | 2,178 | 47.7 |
| 50,001 to 99,999 | 1,222 | 628 | 50.6 |
| 100,000 | 2,829 | 1,081 | 37.6 |
| 100,001 to 199,999 | 869 | 407 | 46.6 |
| 200,000 to 499,999 | 1,587 | 723 | 45.1 |
| 500,000 to 999,999 | 406 | 175 | 42.9 |
| 1,000,000 to 4,999,999 | 387 | 111 | 28.7 |
| 5,000,000 and over | 47 | 9 | 19.1 |
| Not available | | 135 | |
| Total | 28,885 | 14,943 | 49.7 |

Source: John M. Chapman and Ray B. Westerfield, "Branch Banking," Harper and Brothers, New York and London, 1942, p. 111.

always two sides to the argument.

Banking problems confronting the public are discussed in the following chapters. It will be seen how there has been a tendency toward bank concentration to keep up with industry. Banks, as all businesses, are interested in making a profit. In order to do this a bank sells its services to the public, and it is only when it has secured the confidence of the people that it can secure more customers and thus increase its profits. Thus by offering more and better services to its customers it can operate in the most efficient and economical way. In the opinion of many bankers the most efficient way is to operate under a multiple banking system.

Foreign countries have found this system the most economical and serviceable. The United States, on the other hand, has not found it necessarily the best method of carrying on the banking functions. The legislation regarding multiple banking has been varied and when laws have opposed branch banking, methods of avoiding this legislation have been adopted, viz. chain and group banking. Legislation has been the result of public opinion and the public's attitude has changed considerably in the course of years.

The institution of the Federal Reserve system has been the most recent fundamental change in our banking system. This system is a form of multiple banking as it consists not merely of one but of twelve central banks, each maintaining

branches. All national banks must belong and state banks, if they so wish, may belong to this group system. The operation of this organization works as a multiple banking system by furnishing many services to its members, e.g. holding reserves, distributing currency, making loans, and so forth.

The branch banking controversy was exceptionally marked in the early thirties owing to the depression and the many bank failures; consequently Congressional investigations were made in order to fully determine the merits of the multiple banking systems (1). The tendency toward branch banking was exceedingly strong in this period because of the need for a fundamental reform at this time. Two solutions for a more stable banking system were offered: branch banking and deposit insurance. In the Banking Act of 1933, Federal Deposit Insurance was inaugurated, thus making branch banking no longer an urgent matter (2). Branch banking lost its opportunity to become nationwide and it is doubtful whether it will have as good an opportunity again.

The future of branch, group and chain banking is hard to ascertain. What will happen to industry and finance

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1. Reference to "Branch, Chain and Group Banking" in the Hearings before the Committee on Banking and Currency, House of Representatives, 141,71st Congress, Vol. 1 and 2, Washington, 1930.
2. "Money and Banking," ed. Major B. Foster and Raymond Rodgers, New York, 1936, p. 673.

after this war is a question that no one can predict. Will there be any fundamental changes? It is necessary, however, to understand the history of multiple banking, the position it holds in the world today, its administration and workings and the present status of banking in the United States before considering what the future of multiple banking will be. Is it an obsolete problem or will it become an essential factor in the banking system of the United States? The future will determine the answer.

## II. HISTORY OF BRANCH BANKING IN THE UNITED STATES

### 1. Introduction

The history of banking in the United States is divided into definite periods marked by revolutionary experiments in the banking system. One of the most important experiments in commercial banking has been that of the growth, in recent years, of branch banking. Branch banking, as noted before, is that system by which two or more banking offices are maintained by a single banking institution. Because of this recent development, it is interesting to note the part which branch banking has played in the different eras of banking history in the United States.

### 2. Branch Banking before the Civil War

Branch banking played a significant role in the economy of the United States prior to the Civil War. In 1790 (1) when the question arose whether the needs of the country would be better served by a system of branch banks, Hamilton, in his report to Congress, was skeptical of allowing the proposed Bank of the United States to have branches. Although he recognized that branches would afford more general accomodation and would lessen the danger of a run on the bank, he, nevertheless, feared that branch banking would leave doubts in the mind of the public and that the

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1. John T. Holdsworth and Davis R. Dewey. "The First and Second Banks of the United States," Government Printing Office, Washington, 1910, p. 13.

first Bank of the United States would not be introduced. He stated, however, that if branches were desirable later, provision might be made for them (1).

Despite Hamilton's judgment, the act creating the first Bank of the United States (the charter of which ran from 1791-1811) (2) carried a clause authorizing the directors

> "'To establish offices wheresoever they shall think fit, within the United States for the purposes of discount and deposit only.'" (3)

Immediately branches were opened at New York City, Boston, Baltimore and Charleston, (the number being extended later) radiating from the head office in Philadelphia; each branch apportioning a share of the whole capital. The branches stabilized the issues of bank notes by making all duties payable in notes of the Bank of the United States; these notes gained a far more extensive circulation than those of any other bank. Moreover, the bank and its branches exercised a salutory restraint upon overissue of other banks by following the practice of presenting promptly the notes of other banks received over their counters (4).

Although the Bank of the United States was in competition with the state banks, it entered into friendly

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1. Ibid., p. 36.
2. Ibid., p. 20.
3. John M. Chapman and Ray B. Westerfield, "Branch Banking," Harper and Brotners, New York and London, 1942, p. 3.
4. Ibid., p. 28.

co-operation with them, establishing daily clearings and settlements, and extending loans and other favors. Because

> "....it had a monopoly of government deposits, it transferred government funds from one part of the country to the other free of charge and found its branch organization a very helpful device in this connection." (1)

As a financial institution, the Bank of the United States was a great success but at the end of twenty years it failed to be recharted. It was claimed, however, that

> "This opposition was fostered by the state institutions, though the selfish interests of the state banks, in their desire for freer activity and for the federal government deposits, would hardly suffice to explain the overthrow of these useful national institutions, had it not been backed by the widespread fear of monopoly and the constitutional objection, which was especially strong in those days of the prevalence of the states' rights doctrine." (2)

The Bank did not fail of recharter because it was a branch bank, except as the branches had, through their competition, brought about the hostility of the state banks. Even Hamilton was convinced that branches were beneficial.

According to the law incorporating the second Bank of the United States in 1816 (3), the bank was allowed, and under certain conditions required, to establish branches in any state in the union, and, too, that

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1. Idem.
2. Shirley D. Southworth, "Branch Banking in the United States," McGraw-Hill Book Co., Inc., New York, 1928, p. 3.
3. Holdsworth and Dewey, op. cit., p. 152.

> "All of the directors of a branch were to be residents of the state, territory, or district where the branch was located and were to be appointed by the central board of directors." (1)

The Bank proceeded to establish branches in every state on the Atlantic seaboard except New Jersey and Delaware, and in every interior district except Indiana and Illinois.

With such poor transportation and communication facilities of that time, it was not easy for the central board to establish effective control of the branches, and

> "The losses at such branches were bound to be heavy, particularly because unwise methods of administration were tolerated through inertia and carelessness or through a disposition of the Bank to adapt itself to local conditions." (2)

The second Bank, as did the first, was in keen competition with the state banks which had increased rapidly in the interim of 1811-1816. The greatest conflict arose in connection with the treatment of notes. The Treasury sided with the state banks for it insisted that

> "....in payment for public lands in the West it was necessary to receive the notes of western banks in good credit, for there was no other currency and sales of land should not be stopped for want of it." (3)

When the charter for this Bank ran out, President Andrew Jackson failed to have it rechartered and the situation became political. Jackson attacked the Bank severely, but

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1. Southworth, op. cit., p. 3.
2. Chapman & Westerfield, op. cit., p. 31.
3. Ibid., p. 34.

none of his criticisms were based on the fact that it was a branch bank; but the branches had to take the brunt of criticism from local banks and people.

Banks with federal charters were not the only banks with branches, for branch banking was very common among state banks. Examples are too numerous to mention; but many states were found to have branches throughout. Virginia was particularly successful with her branch banking, whereas Iowa made little use, if any, of branches. (1). Nevertheless,

> "....it was common in most of the states and predominant, if not exclusive, in many, and that when any state started a program of financing itself and its citizens it generally employed a state bank with branches having a state-wide distribution. Only north and east of Mason and Dixon's line did it fail to get a broad and deep hold in public use or toleration." (2)

The basic reason for branch banking was because of the relative plentiful capital, and for the fact that the town as a governmental unit played a dominant role.

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1. See Table 2, p. 17.
2. Chapman & Westerfield, op. cit., p. 46.

TABLE 2

NUMBER OF BANKS OPERATING BRANCHES AND THE NUMBER OF BRANCHES, CLASSIFIED ACCORDING TO STATES, FOR YEARS 1848, 1856, 1860

| State | 1848 Number of Banks with Branches | 1848 Number of Branches | 1856 Number of Banks with Branches | 1856 Number of Branches | 1860 Number of Banks with Branches | 1860 Number of Branches |
|---|---|---|---|---|---|---|
| Alabama | 1 | 5 | | | | |
| Delaware | 1 | 3 | 1 | 3 | 1 | 3 |
| Georgia | 3 | 7 | 6 | 30 | 2 | 5 |
| Indiana | 1 | 13 | 1 | 20 | 1 | 20 |
| Iowa | -- | -- | -- | -- | 1 | 13 |
| Louisiana | -- | -- | 1 | 1 | 2 | 3 |
| Kentucky | 3 | 13 | 6 | 26 | 7 | 31 |
| Maryland | 1 | 2 | 1 | 1 | 1 | 1 |
| Missouri | 1 | 5 | 1 | 5 | 9 | 33 |
| New York | 2 | 2 | -- | -- | -- | -- |
| North Carolina | 2 | 14 | 3 | 17 | 3 | 19 |
| Ohio | 1 | 29 | 1 | 36 | 1 | 36 |
| Pennsylvania | 1 | 1 | -- | -- | -- | -- |
| South Carolina | 1 | 2 | 1 | 2 | 1 | 2 |
| Tennessee | 3 | 17 | 3 | 15 | 3 | 17 |
| Virginia | 6 | 30 | 7 | 39 | 7 | 39 |
| Total | 27 | 143 | 32 | 195 | 39 | 222 |
| Average number of brahches per bank | | 5.3 | | 6.1 | | 5.7 |

Source: John M. Chapman, Ray B. Westerfield, "Branch Banking," Harper and Brothers, New York and London, 1942, p. 47.

The rapid establishment of branch banks in the period before the Civil War seemed to have been motivated by the facility in issuing bank notes which would be difficult to redeem (1). Wild-cat banking was in evidence and a banking reform was necessary. The first of these reforms was the Free Banking Act of New York in 1838 (2), which allowed any person to deposit with the state Comptroller certain securities and to receive circulating notes to be issued as money. No one was to conduct business as a banker except at the place of actual residence. This was a prohibition of branch banking but clearly against misuse of agents and not branch banking proper for

> "'It does not appear that specific legislation against branch banking was adopted in any states except New York and Rhode Island, though the bank commissioners of some states interpreted the existing laws as failing to permit the establishment of branches.'" (3)

3. Branch Banking, 1863-1909

The Civil War came with inadequate banking facilities for there was no central bank in the United States. State banks had increased with different laws and different

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1. Cartinhour, op. cit., p. 279.
2. Thomas Joel Anderson, Jr., "Federal and State Control of Banking," The Bankers Publishing Co., New York, 1934, p. 57.
3. Southworth, op. cit., p. 9.

notes. There was need of a uniform sound bank note currency and the creation of a market for government bonds to finance the Civil War.

In 1863 the National Bank Act was passed and in 1864 ammendments were enacted (1). Its principal features, however, were:

1. Free banking - the incorporation of banks under general regulations.
2. A bond-secured note issue.
3. Minimum percentage legally required reserve against both notes and deposits.
4. Double liability of shareholders.
5. Federal supervision by a bureau of the Treasury, under the Comptroller of the Currency. (2)

This Act did not specifically forbid the establishment of branches by national banks but in 1865 an amendment was passed which

> "'Provided, That it shall be lawful for any bank or banking association organized under state laws, and having branches, the capital being joint and assigned to and used by the mother bank and branches in definite proportions, to become a national banking association in conformity with existing laws, and to retain and keep in operation its branches or such one or more of them as it may elect to retain....'" (3).

Branch banking had, however, dropped off. Instead of going into the National Bank System with branches, it

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1. Anderson, op. cit., p. 71.
2. Chapman & Westerfield, op. cit., p. 58.
3. Southworth, op. cit., p. 13.

seemed easiest to break up the branches and join as individual banks, for

> "Branch banking had been killed by 'free banking' legislation, both state and national, by the spread of the bond-secured note scheme, by the prohibitory tax on state bank notes, by the decline in importance of the state banks and the rise of national banks, and by the collapse of the South during and after the Civil War - a region where branch banking had been common." (1)

The prostration of the South, the depressions, unfair distribution of banks and notes, the decline of the price level, and the failure of bank notes to expand with the physical volume of trade brought much criticism of the banking structure. Not until 1894, however, was any proposal made to Congress to remedy the situation by the establishment of branch banking. Congress proposed that national banks with a capital of not less than $1,000,000 should have the authority, under proper rules and regulations laid by the Comptroller of the Currency, to establish branch banks at home and abroad (2). In spite of active agitation for branch banking legislation for the next five years, no change was made in the national law relating to branch banking. Although there was a slight increase in the number of branches in the last half of the nineteenth century (3).

1. Chapman & Westerfield, op. cit., p. 61.
2. Ibid., p. 64.
3. See Table 3, p. 21.

TABLE 3

BRANCH BANKS, IN 1901, BY STATES

| State | Number of Banks having Branches | Number of Branches | Total Number of Banks - State and National |
|---|---|---|---|
| Maine | 3 | 7 | 84 |
| Massachusetts | 2 | -- | 247 |
| Rhode Island | 3 | 10 | 38 |
| New York | 13 | 33 | 341 |
| New Jersey | 2 | 2 | 124 |
| Delaware | 2 | 6 | 21 |
| Georgia | 3 | -- | 32 |
| Mississippi | 4 | 5 | 14 |
| Louisiana | 1 | 2 | 26 |
| Michigan | 5 | 8 | 85 |
| Wisconsin | 2 | 3 | 94 |
| Utah | 1 | 1 | 10 |
| Nevada | 2 | 2 | 1 |
| Arizona | 4 | 6 | 7 |
| Total | 47 | 85 | 1124 |

Source: John L. Chapman and Ray B. Westerfield, "Branch Banking," Harper and Brothers, New York and London, 1942, p. 77.

The year 1900 is an important turning point in American banking as there was a marked establishment of an anti-branch attitude in the minds of the legislature and prominent bankers (1). The panic of 1907 (2) brought out clearly the need for a more adequate banking system, however, and a project of a central bank materialized, after six years of discussion, in the establishment of the Federal Reserve System.

4. The Status of Branch Banking, 1909-1933

The revolutionary act establishing state-wide branch banking in California in 1909 started a far-reaching movement (3), for shortly after the passage of the California law several other states began to reconsider the question and by 1910, twelve states permitted branch banking (4). The change to branch banking, although at first slow, was imminent. It was not until the end of the first World War, however, that the growth became rapid.

California's banking history was quite colorful for the Act of 1909 brought about a

> "....reorganization of the state system of banking supervision, introduced 'departmental banking', and gave definite statutory authority for the practice of branch banking." (5)

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1. Chapman & Westerfield, p. 78.
2. William J. Shultz and M.R. Caine, "Financial Development of the United States," Prentice-Hall, Inc., N.Y., 1937, p. 457.
3. Chapman & Westerfield, op. cit., p. 84.
4. See Table 4, p. 24.
5. Southworth, op. cit., p. 37.

This legislation made it possible for great mergers to take place. The most important was the history of the Bank of Italy of Los Angeles, affiliated with the Bancitaly Corporation, which bought the Commercial National Bank of Los Angeles, with its branches, and became the Commercial National Bank and Trust Co. This affiliation bought the Bank of America and increased its holdings by merging with the Bank of Italy in San Francisco and becoming the Bank of Italy National Trust and Savings Association (1). The acquiring of so many established institutions brought much opposition against A.P. Giannini, the founder of the Bank of Italy. B. C. Forbes says of him:

> "'Born fighter though he was and is, A.P. Giannini found himself up against the fight of his life when he invaded the branch banking arena, and there were times when obstacles hurled in his way seemed insurmountable. He was fought by other California banks in the reserve centers, because it meant the loss of an account each time he took over an established institution.'" (2)

It is impossible to know the ultimate goal of Giannini. If there should be interstate branch banking

> "....it is readily conceivable that Bank of America in New York, by reason of its historic background and Wall Street location, may be made the head office for a system of branch banks extending from coast to coast." (3)

There is not space enough to show here what a

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1. Chapman & Westerfield, op. cit., p. 90-1.
2. Southworth, op. cit., p. 59.
3. Cartinhour, op. cit., p. 154.

TABLE 4

LEGAL STATUS OF BRANCH BANKING IN 1910, BY STATES

| Branches Permitted | Branches Prohibited | Law Silent on Branch Banking |
|---|---|---|
| Arizona (1) | Colorado | Alabama |
| California (2) | Connecticut | Arkansas |
| Delaware (2) | Massachusetts (5) | Idaho |
| Florida | Mississippi | Illinois |
| Georgia | Missouri | Indiana |
| Louisiana (6) | Nevada | Iowa |
| Maine (3) | Pennsylvania (1) | Kansas |
| New York (2) (4) | Texas | Kentucky |
| Oregon (2) | Wisconsin | Maryland |
| Rhode Island | | Michigan |
| Tennessee (1) | | Minnesota |
| Washington (2) | | Montana |
| | | Nebraska |
| | | New Hampshire |
| | | New Jersey |
| | | New Mexico |
| | | North Carolina |
| | | North Dakota |
| | | Ohio |
| | | Oklahoma |
| | | South Carolina |
| | | South Dakota |
| | | Utah |
| | | Vermont |
| | | Virginia |
| | | West Virginia |
| | | Wyoming |
| Total 12 | Total 9 | Total 27 |

(1) Apparently.
(2) On increase of capital.
(3) Restricted by location.
(4) In home city.
(5) Trust companies may have one branch in home city.
(6) In municipality or parish of parent bank.

Source: John M. Chapman and Ray B. Westerfield, "Branch Banking," Harper and Brothers, New York and London, 1942, p. 85.

truly fascinating history this period in California banking really was. It is worthy of a separate book and anyone wishing to read about Giannini's business transactions should follow the S.E.C. investigation on his holdings (1). California was the ground for the most elaborate experiment in state-wide branch banking and the whole country watched with interest. The state, itself, has had favorable branch banking conditions which have warranted such operations owing to its geography, its heavy immigration, its diversification of industries and

> "....lack of synchronism in the seasonal demands for loans in the different parts, for it permits shifting of funds from one area to another, allowing a maximum utilization of capital, and this can be effected best by a system of branches under one control." (2)

The Federal Reserve Act, enacted in 1913, was in its essence a branch organization for in Public Law No. 43, Sec. 3, it states that

> "Each Federal reserve bank shall establish branch banks within the Federal reserve district in which it is located and may do so in the district of an Federal reserve bank which may have been suspended." (3)

.....

1. See Security and Exchange Commission, Release No. 3063. "In the matter of Proceeding under Section 19 (a) (2) of the Security Exchange Act of 1934, as amended to determine whether the registration of Transamerica Corporation Capital Stock, $2. par value should be suspended or withdrawn." File No. 1-2964. November 5, 1941.
2. Chapman & Westerfield, op. cit., p. 92.
3. "Federal Reserve Act of 1913 with Amendments and Laws Relating to Banking." United States Government Printing Office, Washington, 1941, p. 3.

In spite of this principle, national banks were still not allowed to establish branches until the McFadden Bill was passed in 1927

> "....to enable national banks to compete fairly with State banks and to establish a national policy with respect to branch banking." (1)

There were, however, ways for national banks to carry on branch activities such as converting into state banks, acquiring branches, and then reconverting into national institutions; or else group banking (2) could be practiced.

The McFadden Act in its final form said nothing about the number of branches which a state bank could establish if the bank was not a member of the Federal Reserve system, and, therefore, failed to place national and state banks on an equal basis in regard to branches. The purpose of the Act, in short, was to permit the establishment of branch banks to members of the Federal Reserve system in states where branch banks were permitted by state law, but it limited the banks to intracity branches only in cities where the mother bank was located. It also prohibited any bank from becoming either a national bank or a state member bank without first relinquishing any prohibited branches established.

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1. Cartinhour, op. cit., p. 284.
2. See definition on p. 5.

While considerable incentive was given to the establishment of intracity branches in the next few years, there was only a small increase in the number of national banks engaged in branch banking. The Act failed in its purpose of stopping the development of branch banking. There was much arguing over small matters among bankers, but nothing was really done concerning the number of bank failures and the need for strong banking structure.

The great holocaust of bank failures in the twenties was finally climaxed on March 5, 1933 when a nation-wide four-day bank holiday was proclaimed by the President of the United States (1). At that time the number of failures amounted to 11,130 or 36.1 per cent of all banks in operation in 1921 (2). The rate of failures was higher among the small banks as can be seen in Table I. The Emergency Banking Act which immediately followed the Holiday gave the government control over banks for the protection of the depositors; only those banks in a sound condition were allowed to reopen.

John W. Pole, Comptroller of the Currency in 1928, became a prominent leader in the branch banking controversy in the period 1928-1933. He advocated branch banking on a trade-area-wide basis as a remedy for failures. Nation-wide

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1. Shultz & Caine, op. cit., p. 668.
2. Chapman & Westerfield, op. cit., p. 109.

TABLE 5

NUMBER OF BANKS OPERATING BRANCHES AND NUMBER OF BRANCHES BY STATES, DECEMBER, 1926

| State | Banks Operating Branches | Number of Branches |
|---|---|---|
| New York | 105 | 507 |
| California | 88 | 668 |
| Pennsylvania | 33 | 127 |
| Massachusetts | 78 | 132 |
| Michigan | 68 | 397 |
| Ohio | 52 | 227 |
| Louisiana | 40 | 104 |
| North Carolina | 40 | 74 |
| Virginia | 37 | 59 |
| Maryland | 36 | 114 |
| Maine | 24 | 53 |
| Georgia | 22 | 38 |
| Tennessee | 22 | 56 |
| New Jersey | 13 | 20 |
| Mississippi | 11 | 25 |
| District of Columbia | 10 | 20 |
| Rhode Island | 9 | 27 |
| Arizona | 7 | 22 |
| South Carolina | 7 | 25 |
| Wisconsin | 7 | 9 |
| Alabama | 5 | 19 |
| Delaware | 5 | 15 |
| Washington | 5 | 7 |
| Indiana | 4 | 8 |
| Kentucky | 4 | 12 |
| Arkansas | 2 | 3 |
| Minnesota | 2 | 6 |
| Nebraska | 2 | 2 |
| Oregon | 1 | 1 |
| Florida | -- | -- |
| New Hampshire | -- | -- |
| Total | 789 | 2,777 |

Source: Gaines T. Cartinhour, "Branch, Group and Chain Banking," The MacMillan Company, New York, 1931, p. 283.

attention was focused on this question and advocates for branch banking pointed out that national banks would be stronger, and that they could extend their benefits to needy rural areas. Pole, noting the denationalizing of 127 large national banks in the past years, stated that his plan

> "'...would offer to state banks and trust companies an opportunity to gain a wider field of banking operations under the national charter.
>
> '....From the standpoint of the government of the United States, the increase in the resources and strength of the national system as a result of the extension of branches and the conversion of large state banks into national, would bring into the Federal Reserve System a great volume of banking resources now operating independently and at the same time develop an instrumentality over which the government would have complete control and through which it would enforce an adequate banking policy.'" (1)

Agreeing with this idea were President Hoover, Secretary of the Treasury Mellon and Melvin A. Traylor, President of the First National Bank of Chicago.

The question was so controversial at this time, that the House of Representatives carried on an investigation and presented a report (2), but no definite action was taken. The American Bankers Association, also, investi-

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1. Chapman & Westerfield, op. cit., p. 113.
2. Reference to "Branch, Chain and Group Banking," in the Hearings before the Committee on banking and Currency, House of Representatives, 141,71st Congress, Vol. 1 and 2, Washington, 1930.

gated the problem and although no conclusions were actually drawn, the American Bankers Association, still upholding the unit form of banking, recognized

> "'....that a modification of its former resolutions condemning branch banking in any form is advisable.'" (1)

5. Branch Banking, 1933-1940

The Glass-Steagall Act of 1933, an outgrowth of legislative investigations of the causes of the great depression of 1929-1933, provided

> "'....for the safer and more effective use of the assets of banks, to regulate interbank control, to prevent the undue diversion of funds into speculative operations, and for other purposes.'" (2)

Out of the twenty-five distinct topics contained in the Act, only a few pertained to branch banking.

One was that a national bank was allowed branches on a city-wide or state-wide basis, on the same conditions as the state banks. No national bank, however, may establish a branch outside its home city unless it has a capital of $500,000 or more except in very scarcely populated states where the minimum capital may be lower. The aggregate capital of a parent bank and its branches must at least equal the aggregate minimum capital required by law for an equal number of national banks situated where the head bank

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1. Chapman & Westerfield, op. cit., p. 115.
2. Ibid., p. 116.

and branches are located (1).

The Banking Act of 1933 did not result in an immediate increase in branch banking as some of the restrictions were too high. These high requirements, however, were beneficial in one respect, in that state banks followed suit in raising necessary capital requirements; but on the other hand the number of banks were restricted leaving many areas bankless (2).

Although the arguments for branch banking were still strong, the Banking Act of 1935 did not change the status of branch banking (3). Senator McAdoo, in the years 1936-1939, drew up two bills; one was to permit national banks to establish new branches in the Federal Reserve districts where their home office was, if the state permitted branch banking; the other forbid corporations from holding more than 10 per cent of the outstanding stock of a member bank. The last bill was to eliminate chain and group banking systems. These bills were not enacted but should further legislation be enacted in regard to branch banking, these steps will undoubtedly be evidenced (4).

In the recent years since 1910, the number of states permitting branch banking in some form has increased (5). This has been due mainly to the establishment of the

1. Chapman & Westerfield, op. cit.p.119.
2. See Table 6.
3. Chapman & Westerfield, op. cit.p.123.
4. Ibid., p. 124-125.
5. See Tables 4 and 5, p. 24 and 28.

## TABLE 6

NUMBER OF BANKS AND BRANCHES IN THE UNITED STATES, 1933-1939

| End of Year | Member Banks | | Non-member Banks | | | | |
|---|---|---|---|---|---|---|---|
| | Nat'l | State | Insured(1) | Not Insured(1) | Mutual Savings | Private(2) | Total |
| Number of Banking Offices | | | | | | | |
| 1933..... | 6,275 | 1,817 | 9,041 | | 704 | 103 | 17,940 |
| 1934..... | 6,705 | 1,961 | 9,579 (3) | | 705 | 246 | 19,196 |
| 1935..... | 6,715 | 1,953 | 8,556 | 1,088 | 698 | 143 | 19,153 |
| 1936..... | 6,723 | 2,032 | 8,436 | 1,043 | 693 | 139 | 19,066 |
| 1937..... | 6,745 | 2,075 | 8,340 | 997 | 691 | 79 | 18,927 |
| 1938..... | 6,723 | 2,106 | 8,224 | 958 | 690 | 73 | 18,774 |
| 1939..... | 6,705 | 2,177 | 8,098 | 931 | 683 (4) | 69 (5) | 18,663 |
| Number of Banks (Head Offices) | | | | | | | |
| 1933..... | 5,154 | 857 | 8,341 | | 579 | 98 | 15,029 |
| 1934..... | 5,462 | 980 | 7,693 | 1,108 | 579 | 241 | 16,063 |
| 1935..... | 5,386 | 1,001 | 7,728 | 1,046 | 570 | 138 | 15,869 |
| 1936..... | 5,325 | 1,051 | 7,588 | 1,004 | 565 | 134 | 15,667 |
| 1937..... | 5,260 | 1,081 | 7,449 | 960 | 563 | 74 | 15,387 |
| 1938..... | 5,224 | 1,114 | 7,316 | 917 | 555 | 68 | 15,194 |
| 1939..... | 5,187 | 1,175 | 7,171 | 887 | 551 | 63 | 15,034 |
| Number of Branches | | | | | | | |
| 1933..... | 1,121 | 960 | 700 | | 125 | 5 | 2,911 |
| 1934..... | 1,243 | 981 | 778 | | 126 | 5 | 3,133 |
| 1935..... | 1,329 | 952 | 828 | 42 | 128 | 5 | 3,284 |
| 1936..... | 1,398 | 981 | 848 | 39 | 128 | 5 | 3,399 |
| 1937..... | 1,485 | 994 | 891 | 37 | 128 | 5 | 3,540 |
| 1938..... | 1,499 | 992 | 908 | 41 | 135 | 5 | 3,580 |
| 1939..... | 1,518 | 1,002 | 927 | 44 | 132 | 6 | 3,629 |

1. Federal deposit insurance did not become operative until Jan. 1, 1934.
2. The figures for December 1934 include 140 private banks which reported to the Comptroller of the Currency. Under the Banking Act of 1935, private banks no longer reported. Only private banks as report to state banking departments are in the figures shown for subsequent years.
3. Separate figures not available for branches of insured and not insured.
4. Comprises 51 insured banks with 24 branches and 500 uninsured banks with 108 branches. The figures for 1939 exclude one bank with 4 branche which heretofore was classified as an insured mutual savings bank but is now included with "Non-member banks" other than mutual savings and private banks.
5. Comprises one insured bank with no branches and 62 uninsured banks with six branches.

Source: Board of Governors, "Federal Reserve Bulletin." Washington, May, 1940, Vol. 26, No. 5, p. 456.

Federal Reserve System and to the widespread discussion of the problem. It should be noted, however, that all through the history of banking in the United States it has been always very difficult to establish branches. The American people, as represented by Congress, seem to want a unit banking system, principally to avoid too much widespread control. As can be seen in the history of banking, the unit system has been inadequate in stabilizing banking and currency in the country. Some solution to the problem must be developed and branch banking has not really had a chance to show its real value.

## III. BRANCH BANKING ABROAD

### 1. Canada

The Canadian banking system has been a product of an evolution of trial and error. No one group of men is responsible for its growth as one can see by the different influences which resulted from the immigration into the country. The French dominated the country from 1608 to 1763 (1) bringing with them issues of government credits in the form of "ordonnances." The British, who followed, wishing to immediately set up a sound banking and currency system, imported Spanish money to meet the need for currency. As the country grew the currency need became so acute that in 1792 a bank was proposed (2). It was not until 1817, however, that the Bank of Montreal was finally established; and by 1822 it had obtained its charter (3).

No reference to the right of opening branches was made, but an office was immediately established in Quebec. Branch banking was implied and subsequently,

> "'The right to establish branches or agencies has been a part of every bank charter granted since 1822, and appears in the same language ....of the Bank Act now in force.'" (4)

Other banks were chartered in the following years and estab-

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1. James Holladay, "The Canadian Banking System," Bankers Publishing Co., 1938, p. vii.
2. Chapman & Westerfield, op. cit., p. 336.
3. Ibid., p. 336.
4. Ibid., p. 337.

lished branches also. Before 1825 banks were established in Ontario, New Brunswick and Nova Scotia (1). Since this time it has been a matter of course for the Canadian banks to set up branches wherever the needs of business called for them.

In the nineteenth century the government took several ventures into the banking field by passing the Free Banking Act of 1850 (2) which allowed for the formation of new banks in certain parts of Canada. The British North America Act of 1867 (3), however, gave to the Parliament of Canada exclusive legislative authority over all matters concerning coinage and banking. The period following, was one of great expansion and prosperity in Canada and the number of banks increased rapidly. The number of bank failures which followed was very small in regard to the loss of capital, but it should not go unnoticed that in 1894 out of the fifty-six chartered banks at some time in operation in Canada since 1867, only thirty-eight remained (4).

Since 1909 there has been a decline in the number of banks and an increase in the number of branches.

As one can see, the first two decades were periods of rapid increase and the maximum was reached by 1920. This

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1. Holladay, op. cit., p. viii.
2. Idem., p. viii.
3. Chapman & Westerfield, op. cit., p. 257.
4. Southworth, op. cit., p. 201.
5. See Table 7, p. 36.

TABLE 7

CONCENTRATION IN THE FOUR LARGEST CANADIAN BANKS

December 31

| Year | Number of Banks | Number of Branches | Percentage of Branches in Four Largest Banks |
|---|---|---|---|
| 1869 | 21 | 147 | 51 |
| 1879 | 36 | 295 | 38 |
| 1889 | 38 | 402 | 31 |
| 1899 | 38 | 663 | 31 |
| 1909 | 31 | 2,214 | 28 |
| 1919 | 18 | 4,494 | 39 |
| 1929 | 11 | 4,258 | 64 |
| 1934 | 10 | 3,065 | 72 |
| 1936 | 10 | 2,961 | 71 |

Source: James Holladay, "The Canadian Banking System," Bankers Publishing Company, 1938, p. 97.

increase can well be explained by the expansion of banking facilities to the area west of the Great Lakes and by banking establishments abroad. By 1926, the three largest Canadian banks were the Bank of Montreal, the Royal Bank and the Canadian Bank of Commerce, having a total of more than $2,000,000,000 of resources and more than 2,000 branches (1).

The reduction from eighteen to ten banks in the period from 1919-1934 (Table 7) was largely due to absorptions as there were very few bank failures. Because of the efficiency and success of the various banks, the movement for a central bank gained momentum very slowly in Canada. It was pointed out, however, that the banks had two important duties to perform:

1. To carry out the making of loans and investments, and safeguarding the interests of depositors and shareholders.

2. As a group system - to maintain stability and regulate the quantity and flow of credit, interest themselves in fluctuations of exchange and tend to matters of national finance. (2)

Thus the Bank of Canada was incorporated in 1934

> "'To regulate credit and currency in the best interest of the economic life of the nation, to control and protect the external value of the national monetary unit and to mitigate by its influence fluctuations in the general level of

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1. Southworth, op. cit., p. 201.
2. Holladay, op. cit., p. 204.

> production, trade prices and employment, so far as may be possible within the scope of monetary action, and generally to promote the economic and financial welfare of the Dominion.'" (1)

For the purpose of carrying out its duties, the Bank is allowed to establish branches wherever necessary and to appoint agents in foreign countries. Each chartered bank keeps an account with the Bank and gives it an annual report to aid in the coordination of the banking system.

Another method of bank control is that of a voluntary association known as The Canadian Banker's Association, incorporated in 1900.

> "The Act of Incorporation states that the 'objects and powers of the Association shall be to promote generally the interest and efficiency of the banks and bank officers and the education and training of those who contemplate employment in banks; to arrange for lectures, discussions, competitive papers, and examinations on Commercial Law and Banking; and to acquire, publish and carry on the Journal of the Canadian Bankers' Association.'" (2)

The Association has carried on under this Act and added other duties so that now it holds an important place in the banking structure of Canada. It now has complete control of the distribution and management of the bank note, and is further authorized to establish clearing houses

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1. Holladay, op. cit., p. 204-5.
2. Ibid., p. 164-5.

and to regulate their functions. By the Act of 1913 (1), the Association was also authorized to make rules and regulations for the management of the central gold reserves. The Association has proved to be an essential instrument in coordinating the whole banking system and bankers are often called to consult with the Minister of Finance and to give their opinion on the financial matters of the country.

The banking system of Canada has proved to be one of the best in the world. It is found that the actual work of the bank is to coordinate, supervise and maintain the bank's policies. It is interesting to note, however, the great similarity in the geography of both the United States and Canada. There are no natural boundary lines, but instead a juxtaposition of the two countries in economic and agricultural conditions. Why was it then, that in our Northwest many banks failed in the first decades of the twentieth century, while in that period there were no bank failures in Canada? Was the system of branch banking the answer?

Some of the advantages in regard to branch banking may point to the answer. Branches whose head office was in either Montreal or Toronto were established with little expense, formality and loss of time, whereas in the United

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1. Holladay, op. cit., p. 173.

States much time and expense was involved in establishing separate banks. Consistent policies are always carried out in Canada but in the United States, no uniform management policies are undertaken. This can also be applied to interest rates, which are more uniform throughout Canada. The transfer of funds is much easier although the Federal Reserve System has aided this situation now.

There are of course, certain disadvantages in the Canadian system such as the lack of knowledge of local needs, and the tendency to concentrate the money power into the hands of a few; but Canada does not seem to mind this and has gained, on the whole, from this system. In summary it can be seen that the reasons why Canada has been so helped are:

> "'1. Because pioneer communities have thereby been furnished with banking facilities long before such facilities would have come into being, if the country had insisted on unit banking;
>
> '2. Because funds have at once been made available in such communities with a profusion otherwise impossible; and
>
> '3. Because from the first, in dealing with local problems, such communities have had access to ripe and disinterested banking experience with a worldwide background of knowledge.'" (1)

2. England

Strict banking legislation in regard to the suf-

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1. Chapman & Westerfield, op. cit., p. 338.

ficiency of capital to carry on branch banking, brought a late development of branch banking to England. The Bank of England, established in 1694 created no branches for many years (1). It was not until the statute of 1826, however, that joint-stock banks, with note-issuing rights, were permitted

> "'....to carry on business as bankers in England, sixty-five miles from London, provided they have no house of business or establishment as bankers in London, and that every member of such copartnership shall be responsible for all of the debts of the company.'" (2)

The 1844 Bank Charter Act (3) gave the Bank of England its predominant position in regard to note issue and also authorized it to establish branches in various towns.

Immediately following the Act, the Bank began to establish branches. By 1834 it had thirteen branches in operation, but has since declined to eleven, with two of the branches in London (4). The idea of branch banking was not new; it had existed locally as early as 1790. Scotland, because of the lack of a central bank, had a few large banks with branches before 1790 (5).

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1. A. Andreades, "History of the Bank of England," translated by Christabel Meredith, P.S.King & Son, London, 1909, p. 3.
2. Southworth, op. cit., p. 194.
3. Andreades, op. cit., p. 289
4. Southworth, op. cit., p. 194.
5. Chapman & Westerfield, op. cit., p. 365.

While the Bank of England slowly established branches, the joint-stock banks, from the first, started to establish branches rapidly. They spread into so many parts of the country, including London, that private banks soon began to decline in number. The London and Westminister Bank was formed and a few years later four other London joint-stock banks, of which 33 had no branches, but the other 57 had 341 branches (1).

The Peel Act of 1844 contained some provisions affecting branch banking in that every new branch at which notes were issued had to take out a separate license, thus tending to check the opening of new branches of issue. On the other hand, the provision that made it necessary for the subscribed capital of new companies must be at least £100,000 and must have half of it paid up before commencing business, prevented the formation of small banks and thus favored branch banks (2).

The Peel Act lessened the importance of the note issue since the deposit-and-check system was being used by the banks. Branch banking increased greatly at this time. By 1909, one bank had as many as 600 branches and after the first World War, the increase was even greater. So by 1926, five big joint-stock banks had come to dominate the English

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1. Southworth, op. cit., p. 195.
2. Ibid., p. 195-6.

banking system with their 9,000 branches in England and Great Britain. The "Big Five" are Barclays Bank, London Joint City and Midland, Lloyds Bank, National Provincial and Union Bank, and Westminister Bank (1).

The Bank of England, itself, has branches at Birmingham, Bristol, Leeds, Liverpool, Manchester, Newcastle-upon-Tyne, Plymouth and Southhampton which tend to be mainly currency and clearing centers, for the Bank is beginning to lose its commercial business. The "Big Five" and others cover the country with very little duplication of branches and, therefore, all parts of the country have adequate banking facilities. Competition is keen between the banks and they are forever amalgamating members.

In England, Wales, Scotland and Northern Ireland where the population is approximately 48,000,000 the "Big Five" and their affiliated banks amount to:

| | | |
|---|---|---|
| Barclays | 2,300 | Affiliated banks |
| Lloyds | 2,100 | |
| Midland | 2,600 | |
| Nat'l Provincial | 1,300 | |
| Westminister | 1,300 | (2) |

There is no real government control over the banks because the Bank of England has a monopoly of the note issue, and because diversification of branches over the country spreads the risks of each bank. The banks have to furnish

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1. Southworth, op. cit., p. 196-7.
2. Chapman & Westerfield, op. cit., p. 369.

balance sheets and reports, as do all companies and partnerships, but on the whole, regulation is not emphasized. The relations of the banks to the Bank of England are simple and cooperative, mainly in regard to currency policies.

In England we find that the head office of a bank does not do business directly with the public. It is purely administrative. Up to a certain point, each branch is a separate unit, working without supervision except for periodic inspections. Each branch carries on the regular duties of any unit bank but it can always fall back on the head office if it needs a loan or gets into other difficulties. The larger branches are allowed currency reserves and there is now a tendency to distribute reserves in centers from which the currency may easily be distributed.

The object of any bank is to allocate assets so as to secure safety and liquidity. The failure of the unit banks in England did much to retard the growth of security and confidence; but since branch banking has been adopted on a large scale, bank failures are out of the question. The personnel of the banks has become very important and only those skilled and well educated in banking functions are in charge. In fact the customer may come to his banker for all kinds of advice concerning banking, law and even accounting. By increasing his social intercourse, his knowledge of the community broadens and helps him to create a better relationship between the bank and the people.

3. Continental Branch Banking

Continental banking, although differing in some respects, has narrowed down to branch banking. In order to understand each country's banking system, it would be necessary to understand the geography and politics of each.

It is very generally known that Belgium, Denmark, France and Holland had, before the war, more lenient (and somewhat similar) systems than those of Germany and Italy due to the political set-ups. It is only possible to point out contrasting examples of these systems; but it is interesting to note the fundamental differences between the continental system and that of the United States and England.

a. France

France, one of the purely agricultural countries, began branch banking with a central bank as the controlling factor. Each branch, however, was a unit in itself, having its own capital and being under the direction of the Minister of Finance. In 1924 "Les Societies de Credit et Banques a Succursales en France" wrote

> "'The branches of the banque de France, from the time of their creation, have enjoyed an administrative autonomy which isolates them in the history of commercial and branch banking organization,.....(and) the origin of branch banking is not to be found in the hierarchical and military organization of the banque de France.'" (1)

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1. Chapman & Westerfield, op. cit., p. 403.

The Bank of France, founded in 1800, by Napoleon Bonaparte, was originated as an aid to the government. It was given the right of note issue which later was extended to all of Paris. For the next fifty years it established "banques departementales" and branches throughout France and by 1886 it had 94 branches (2).

Other banks in France were beginning to establish branches and it was not until 1864 that the government demanded published periodical reports (3). In the provinces there were small banks with two or three branches but as in England, the large deposit banks were increasing in the number of branches. By 1938-9, there were six large banks with 2,070 branches (4). The banks in France are not subject to any special legislation. Corporate and other commercial law govern all businesses.

b. Germany

It was not until the first half of the nineteenth century that Germany started forming any banks. This was owing to the confused history of the country; for until 1870 the country was still a federation of states (5). The war with France in 1870 completed the political unification of the country and stimulated industry and consequently banking.

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1. "Foreign Banking Systems," ed. by H. Parker Willis and B.H. Beckhart, Henry Holt & Co., N.Y., 1929, p. 543.
2. Chapman & Westerfield, op. cit., p. 404.
3. Idem.
4. Ibid., p. 406.
5. Ibid., p. 410.

Country-wide expansion of banking in Germany was brought about by subsidiary banks which established themselves in centers from which to open branches. These were not very successful during the crisis of 1873 and The Deutsche Bank absorbed many of them. Branches were opened gradually and other banks followed suit.

As soon as Berlin became the leading financial center of the country, all the important banks had offices in the city and spread a network of branches outside. Private banks gave way to joint-stock banks, as they did in England, but there are still many private banks left.

The degree of governmental control is most important. Although there is not the same governmental influence as there was immediately after the last war, there has developed since 1930 a co-ordinated industrial and financial system working for the benefit of the state. The new law and its administration is headed by a supervisory board and a banking commissioner. There are requirements as to reserves, investments, capital ratios, credits, and so forth. All banks are required to supply comprehensive information concerning the activities, to aid in the coordination with industry.

The German savings bank system is one of the best organized in the world. These banks which are established in most of the towns are affiliated with the German Savings Bank Union. The object of this is to promote interests and

to improve the savings and credit systems.

In the past few years, statistics show that the five joint-stock banks had 1,000 principal offices and 2,274 branches, 1,006 of the 235 special banks, and 157 of the 706 private banks (1). The branch banking system came to Germany as it did in any country where foreign trade and local industry necessitated many deposits.

France, Belgium, Denmark and Holland all have followed the English system to some extent. Germany, because of its political set-up, has a more rigid governmental system; but nevertheless has a branch banking system. Whether these European countries chose this system as being the most adequate or whether they followed along with the rest, it is hard to say. The fact is, however, that they do have this branch banking system.

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1. Chapman & Westerfield, op. cit., p. 415.

## IV. CHAIN AND GROUP BANKING SYSTEMS

### 1. Reasons for Development

In discussing completely the controversy which multiple banking presents, it is necessary to thoroughly understand the nature and workings of chain and group banking. The terms Chain banking and Group banking are often used synonymously; but to repeat the definition, as used in this study, chain banking is that system in which two or more separate corporate banks are controlled by one or more individuals through stock ownership (1). Although the Federal Reserve Board makes little or no distinction between chain and group systems, in this study, group banking will be considered as that method by which two or more banks are owned and operated by a holding company. The holding company does no banking business but exists solely for the ownership and control of a group of banks. The fundamental difference between the two systems is that the group always has some definite form of central management while the chain has not (2).

Since the banking system of any country is to serve the needs of business, it must adapt itself to the ways of business. With the increase of mergers, chain stores, and so forth, it is necessary to have a banking system which can

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1. See Chapter I, p. 5.
2. Idem.

cope with "Big Business". Branch banking, as we have seen in Chapter II, has always been in existence in the United States in a limited capacity, owing to the national banking laws and to most of the state laws. Chain and group banking sprang up in the first two decades of the twentieth century. Group banking did not appear until the holding company became predominant, whereas chain banking was in existence at an earlier date.

The main reason for the development of the chain and group systems was the evasion of Federal and State laws in order to be in a position to practice branch banking as advantageously as possible. Profits and the desire for power also led to the establishment of these systems. With the increase in bank capitalization it is possible to promote a stronger bank. The competition between these entrepreneurial organizations was very keen and has caused a rapid development. The fear of losing correspondent banks to large group competitors and the desire to reach into every corner for business were the controlling factors.

To amplify this thought, bankers who wanted to be considered prominent men in their business felt that the bigger the resources controlled, the bigger the man! This controlling of resources was gained by centralizing the control of several banks and in that way economizing on the operations of each bank and thereby enlarging the profits.

The methods of gaining this control were varied and terms other than group and chain banking were used, such as "bancorporation" and "bank holding company" but all can well be classified under the terms group and chain banking. The three outstanding types of banking concentration, however, can be classified under the following:

"1. Ownership of substantial or controlling interest in a number of banks by a single individual or group of individuals.

2. Control by a non-banking holding corporation which is not subsidiary to any particular bank.

3. Control held or exercised by a particular bank through ownership of stock, either by such bank directly, or through its stockholders or directors." (1)

2. Chain Banking

As chain banking is the predecessor of group banking, it will be more interesting to study its background first. Chain bank systems, under the control of one or more individuals, were introduced in the South and Northwest around 1890 (2). It was not, however, until the first two decades of the twentieth century that the system really began to expand, mainly in the Northwest.

Chain banking has not been limited to those states which prohibited branch banking as much as has group banking. The originator of extensive chain systems in this country

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1. Cartinhour, op. cit., p. 64.
2. Ibid., p. 82.

was Mr. William S. Witham, who organized the Witham Chain. This chain began to expand rapidly and remained until 1926 when it was forced out of existence by the collapse of the Florida land boom and by unwise management (1). It is interesting, however, to note this chain under the Witham system because it was a pioneer in this field and because of the methods of control used. Here, as in New York City, was found a great amount of speculation with the funds and a certain amount of pyramiding. Chain banking in New York seemed to be successful when there was prosperity, but during a depression when one member failed, the whole chain weakened and often failed.

The growth of these chains was usually found in rural districts, mainly in the West and South in the agricultural areas. As explained above, these chains are controlled by an individual or a group of individuals, oftentimes a family group. There is little centralized management and the separate banks have individual boards of directors. There exists no head office and, therefore, no direct responsibility. Chains are usually established when the president of one bank, who owns a majority of that stock, buys more than half of the stock of each of two or more other banks. Thus he owns a controlling part of each bank although each retains its own corporate identity.

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1. Cartinhour, op. cit., p. 84-5.

Governmental control of these chains is quite difficult because most state regulations are inadequate to cope with them. Often times chain banks have crossed state lines and have even entered into different Federal Reserve districts. The chains can be either state or national banks, another factor which can confuse governmental inspection. Governmental regulations, however, can limit the number of banks in the chains.

Chain banking reached its height of popularity in 1925 when the number of chains totalled 134 (1). Experience showed bankers that a chain under the control of an individual is not ordinarily a successful method of banking. Because of the number of failures of many of these chains, bankers have gone into a group system to a large extent.

Chain and group banking do not have all the advantages of branch banking but have all the disadvantages. Branch banking should appeal to group bankers since it permits much more economical operation, less overhead, and simpler forms of administration (2), but branch banking is not always possible. For this reason, chain and group systems have developed.

3. Group Banking

About 1909, a new phase of banking began its

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1. See Table 8, p. 54.
2. Cartinhour, op. cit., p. 327.

## TABLE 8

### BANKING CHAINS AND AFFILIATIONS IN THE UNITED STATES DURING THE YEAR 1925

| State | Number of Chains | Banks | | |
|---|---|---|---|---|
| | | National | State | Total |
| Arkansas | 2 | 7 | 17 | 24 |
| Arizona | 4 | 1 | 14 | 15 |
| California | 20 | 43 | 23 | 66 |
| Colorado | (two or three reported - bank failed) | | | |
| Florida | 1 | 5 | 49 | 54 |
| Georgia | 2 | - | 163 (1) | 163 |
| Idaho | 18 | 36 | 37 | 73 |
| Illinois | 3 | - | 18 | 18 |
| Iowa | 8 | 21 | 24 | 45 |
| Massachusetts | 1 | (reported for an earlier date in Boston) | | |
| Minnesota | 5 | - | 103 (1) | 103 |
| Mississippi | 2 | 1 | 16 | 17 |
| Missouri | 1 | 3 | 3 | 6 |
| Montana | (some reported - number not given) | | | |
| Nebraska | 2 | 2 | 9 | 11 |
| Nevada | 1 | 2 | 7 | 9 |
| New Jersey | 8 | 11 | 15 | 26 |
| New Mexico | 2 | 2 | 6 | 8 |
| New York | 10 | 23 | 12 | 35 |
| North Dakota | (some reported - number not given) | | | |
| Oklahoma | 6 | 22 | 23 | 45 |
| Oregon | 6 | 7 | 15 | 22 |
| Pennsylvania | 2 | 3 | 13 | 16 |
| South Dakota | 1 | - | 6 | 6 |
| Texas | 2 | 6 | 23 | 28 |
| Utah | 9 | 21 | 31 | 52 |
| Washington | 16 | 32 | 37 | 69 |
| Wisconsin | 2 | - | 14 | 14 |
| Wyoming | 1 | 5 | 3 | 8 |
| | 134 | 252 | 681 | 933 |

1. Data not available to make an accurate separation; doubtless some were national banks.

Source: Gaines T. Cartinhour, "Branch, Group and Chain Banking," New York, The MacMillan Company, 1931, p. 94.

development (1). Corporations began to be formed to hold the stock of rural banks. These holding companies raised the money with which to buy the stock mainly from profits gained by loaning to farmers in the Northwest. It wasn't until the late twenties, however, that there was a sudden and rapid growth in group banking. It was stimulated at this point by the great concentration in industry and the need for larger investments.

This later development took place more or less in secrecy to avoid criticism and legislation, as the McFadden Act limited branch banking. News of group banking leaked out, however, and now the operation of this system is rather widely advertised. Statistics on the number of group organizations in this period are not fully available because of the secrecy and because of the failure to distinguish between group and chain systems. Only recent figures are available (2). The later growth of group banking was of a little different nature in that the early companies were closely held together while these recent companies have a greater magnitude of operations and full responsibility for member banks is accepted and provided for (3).

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1. Willit, op. cit., p. 124.
2. See Table 10, p. 61.
3. Cartinhour, op. cit., p. 96.

The growth of group banking has not been restricted to any one part of the country. The late twenties and the early thirties brought a great increase in groups; but from 1936-1940 the number decreased (1). During the thirties many changes took place in the number of group systems. Unit banks have become branches, or have merged. The Banking Law of 1933 did not allow a bancorporation to vote the shares of a national bank which it owned unless it had a permit from the Board of Governors of the Federal Reserve (2). Under this federal legislation the bancorporations are subject to examination and must make reports. The 1935 Law made no fundamental changes, but in 1938 President Roosevelt gave serious attention to the group systems in his movement against monopolies. He urged the abolishment of the group system. As a result of this, in March 1938, a Bank Holding Company Bill was introduced to Congress, attempting to force the dissolution of group banking systems over a three-year period (3). This bill, however, never passed the Committee.

From the first, the majority of the bankers who organized the group system were of the highest type and brought about these group enterprises for strong economic reasons and directed them for the general good of the community they served. Each group is usually built around

1. See Table 9, p. 57.
2. Chapman & Westerfield, op. cit., p. 334.
3. Ibid., p. 335.

TABLE 9

NUMBER OF BANKS AND AMOUNTS OF DEPOSITS IN CERTAIN GROUPS

BY YEARS AS OF DECEMBER THIRTY-FIRST

| Year | Number of Groups | Number of Banks | Number of Banks Operating Branches | Number of Branches of Group Banks | Deposits (Millions) |
|---|---|---|---|---|---|
| 1936 | 52 | 479 | 69 | 847 | $6,841 |
| 1937 | 47 | 461 | 67 | 883 | 6,454 |
| 1938 | 43 | 440 | 65 | 879 | 6,673 |
| 1939 | 41 | 427 | 60 | 869 | 7,173 |
| 1940 | 38 | 406 | 60 | 859 | 7,606 |

Source: John M. Chapman and Ray B. Westerfield, "Branch Banking," Harper and Brothers Publishers, New York and London, 1942, p. 325.

a large metropolitan bank which brings together a group of experienced businessmen and bankers. These men are able to give their excellent managerial ability and prestige to the smaller member banks in the outlying communities.

The method of building up a group system is by organizing a holding company and acquiring sufficient stock in unit banks to control the election of directors and to direct banking policies; however, each bank maintaining its corporate identity. The stock of the bancorporation is usually exchanged for the stock of the bank entering into the group; but is also sold in investment houses. The corporation does not do banking business but aides its members by giving it services such as making available master credit files, supplying publicity, and creating a central organization for purchases of securities.

As an illustration of a successful bancorporation, the Northwest Bancorporation of Minneapolis is the best example. Groups developed largely in the Northwest and this particular corporation maintains groups stretching across seven states from Montana to Iowa. If and when the branch banking ban is lifted, these banks will undoubtedly be converted into branches. This bancorporation in 1938 had 91 affiliated banks with 19 branches and served more than 450,000 depositors in 97 communities. Of the group

56 were national banks and 35 were state (1). Such expansion provides wide diversification, a great advantage.

Government regulation has been a reflection of public opinion. Many states have considerable antipathy toward chain and group banking. Wisconsin, for example, has made many attempts to eliminate these holding companies by limiting the amount of bank stock which can be owned by any one company. Federal legislation has been slow in its interest in the problem. The McFadden Bill made no note of the situation, and it was not until the House of Representatives made an investigation in 1930 that any interest was shown (2). The Comptroller of the Currency at this time stated,

> "'That group banking should be brought under the visitorial powers of the Federal Government in those cases where membership in the group is composed in whole or in part of national or state member banks of the Federal Reserve System.'" (3)

As noted above, the Banking Laws of 1933 and 1935 did regulate the voting of shares of national banks affiliated with holding companies.

Holding companies have often been successful in industry and it is no wonder that the same system was applied to banking. The opportunity to distribute stock issues

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1. Chapman & Westerfield, op. cit., p. 332.
2. See Chapter I, p. 10, note 1.
3. Chapman & Westerfield, op. cit., p. 333.

offered a considerable profit to the organization since federal regulation did not come into existence until 1933. Another reason for the extension of this system was that the confidence of the public in the higher type of management was dominant. The group system had the advantages of the chain but not the weaknesses. The centralized management makes it possible to avoid many failures and to make interbank correspondence easily established. It is not a question whether there should be group or chain banking because of the superiority of the group system; but rather a question of whether there should be branch banking or group banking.

4. The Federal Reserve System

A discussion of multiple banking systems could not be complete without some mention of the Federal Reserve system, for its fundamental character is that of a multiple banking system. Mr. Chapman and Mr. Westerfield adequately describe the obvious ratification of the branch system by the Federal Reserve when they say,

> "It is perhaps significant that the Federal Reserve Act gave approval to branch banking not only by providing specifically that large national banks could establish and maintain branches abroad, but also by making provision therefor in its own structure. The Federal Reserve Organization Committee under the Act had arranged that the twelve Federal Reserve banks be allowed, or even required, to establish branches within their respective districts in order

TABLE 10

NUMBER OF BANKS IN THIRTY-SEVEN GROUPS

DECEMBER 31, 1941

| Geographic Division | Number of Banks in Groups | | | | Number of Group Banks Operating Branches |
|---|---|---|---|---|---|
| | Total | National | State Members | Non Members | |
| New England | 31 | 16 | 8 | 7 | 14 |
| Middle Atlantic | 67 | 34 | 21 | 12 | 19 |
| East North Central | 32 | 26 | 4 | 2 | 4 |
| West North Central | 144 | 85 | 4 | 55 | 6 |
| South Atlantic | 40 | 25 | 2 | 13 | 2 |
| East South Central | 17 | 13 | 3 | 1 | 2 |
| West South Central | 7 | 3 | 1 | 3 | -- |
| Mountain | 37 | 20 | 4 | 13 | 5 |
| Pacific | 30 | 15 | 1 | 14 | 7 |
| | 405 | 237 | 48 | 120 | 59 |

Source: Board of Governors. "Federal Reserve Bulletin," June, 1942, Washington, p. 603.

> to bring the system into more intimate contact with the public and with the banks.....In addition, the Reserve Banks were permitted to establish temporary or permanent agencies in cities which required special services, and provision was made for setting up of foreign agencies." (1)

The functions of the Federal Reserve are very similar to those of branch and group systems because of the services it offers to its members. Reserves are kept at the Reserve banks and are shifted around the country to needy districts. Member banks are examined regularly to make certain of their safety. Uniform interest and discount rates are maintained throughout the country; and, too, the Federal Reserve offers financial advice to its members.

The Federal Reserve Act was amended several times in regard to the branch banking policy; so that in 1935 national banks were allowed branches, with the approval of the Comptroller of the Currency, in the states allowing branch banking, as noted in Chapter II. State banks operating branches were allowed to enter the system too, if approved by the Federal Reserve Board. In fact, the chairman of the San Francisco Reserve Bank stated, in 1919, that it was not the policy of the board to meddle with branch banking among the member state banks, and stated that the

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1. Chapman & Westerfield, op. cit., p. 83.

board actually believed in the principle of branch banking (1). The greatly discussed problem of branch banking and group banking in regard to the Federal Reserve System has been reflected in the various amendments of the Act. A greater membership was hoped by limiting the restrictions on the branches of the state banks. The lessening of the restrictions has not changed the status to a great extent. There is still inequality between the national banks and state member banks and also between nonmember banks and member state banks.

It has been noted in many cases that ordinarily a branch system in itself constitutes an adequate reserve system, but should it at sometime have to make demands on the Federal Reserve Bank, it may be too great a demand and would, therefore, defeat the Reserve bank's ability to protect the public. As the Reserve system is a necessary one, the only solution to this problem would be to have coordination between the Reserve system and the large branch or group banks. Already there can be seen coordination in the examinations of banks. As many banks are under the supervision of the Federal or state governments they may also be under the Federal Reserve bank, the head office of a branch system, under a holding company, or under the supervision of the Federal Deposit Insurance Corporation. The different

1. Chapman & Westerfield, op. cit., p. 96.

agencies have now begun to cooperate by accepting each others reports on the examinations.

There is also the problem of large branch banks or holding companies getting so large that they could dominate the Federal Reserve Banks. This would mean that the public's money would be in the hands of a few. This involves a social problem more than an economic one because of the distrust of monopolies. Economically, it would probably be perfectly all right but public opinion would be against it.

As far as future relations between the Federal Reserve and branch and group banking are concerned, it is hard to say what will happen. The fact remains, however, that the government has the upper hand now and although branch and group banking is limited, both systems are ready to leap forward should government regulations allow them.

## V. RELATIONSHIPS BETWEEN MULTIPLE BANKING SYSTEMS

### 1. Introduction

Because this country is tending toward a centralized system of banking, the problem of what kind of centralized system would be best, may become a future financial and political issue. If the Federal and State governments should openly feel the need for a concentrated banking system, which one should be favored: chain, group, or branch banking?

In general we have covered the workings of each. The situation as it appears here seems to narrow down to the problem of group versus branch banking. Should there be one or the other, or should there be an entirely different plan of centralization?

It has been noted in the previous chapter that group banking is an outgrowth of chain banking - retaining the advantages of the chain system but doing away with many of its disadvantages. Chain banking existed in order to get around the law; but the system itself was found rather unsatisfactory. The unsound method of using the funds of one bank to acquire control of the second, and the funds of the second to acquire ownership in the third, and so forth was used frequently by chains. This method of pyramiding was used unwisely and a weak relationship developed between

invested capital and controlled capital (1). For this reason the chain system will probably not be used in the future.

2. The Banking Administrations

In discussing which would be more efficient, group banking or branch banking, it would be necessary to compare these systems with regard to certain banking functions. First of all, the efficiency of the centralized administration would be the most important function. The object of the banking system, on the whole, is to serve the needs of business and to be flexible enough to adapt itself to the changes in the business structure.

In order to qualify for this position, it is necessary that any bank have a strong but flexible administration. Both group banking and branch banking have aimed toward this goal by centralizing their administrations, but doing so by different methods. In the group system there is one company working exclusively for the separate banks in the various localities. The holding company does no banking itself but offers its services to the banks which it serves. The banks in the branch system, on the other hand, act as agents or offices for the parent bank. They do not maintain separate organizations. The parent bank performs the usual banking functions and manages its branches by means of managers appointed by the head office.

1. Cartinhour, op. cit., p. 58.

It is possible for either administration to be good or bad. The holding company could have either a group of men who knew little or nothing about banking, or, which is more likely, it could have a group of both bankers and businessmen who could coordinate finance and industry. In the branch system there may be greater interest in the banking functions because the parent bank is carrying on the banking operations, too. The bank directors may be men of great banking experience and may have more interest in the particular branches because of the confidence which the public has for the name and reputation of the system. The holding company, however, may not take as great an interest in its banks because the name and reputation of the corporation is not associated with the name and reputation of the bank.

Dishonesty of management in group banking can be multiplied because of the less severe legal requirements. The selling of holding company stock to buy bank stock and the raising of prices in bank stock by the banks has not been an uncommon policy in the past. This method has hidden the true value of the banks. It cannot go unsaid that branch banking has been operated by questionable methods, too; but because of the more lenient rules, group banking has been able to operate more dishonestly.

3. Mobility of Funds

The mobility of reserves is a great feature of multiple banking. Both the group and branch systems have a method by which funds can easily be moved among the various banks of the systems. In places where local credit needs are not urgent, funds may be shifted to the locale where the needs are greater. Canada's branch banking system has shown the simplicity with which these funds have been moved to aid seasonal and cyclic needs. The group system, on the other hand, works as a small Federal Reserve. Reserves are usually kept with the holding company and then distributed to the members of the group where needed. This has proved very efficient and lessens the risks. The only objection is the possibility of reserve pyramiding as will be seen in Chapter VII. This is possible and if the controlling board is not careful it may prove dangerous to the system. As has been stated,

> "'....It would seem wise for holding companies not to press this advantage too far, as a pyramiding of reserves in times of stress would be unwholesome. This can largely be avoided by the retention of membership in the Federal Reserve System by each member bank or by the principal members of the group....'" (1)

4. The Credit Function

The mobility of reserves ties in with the credit function of the banking operations. One of the strong points

1. Cartinhour, p. 220-221.

of multiple banking is the ability to provide large businesses with adequate loans. Businessmen who want large loans can, through either system, obtain the money in their towns without going to the larger cities. There is relatively little difference in regard to group and branch banks concerning this situation. The holding company and the parent bank hold the information of borrowers in a general credit portfolio which is available to its members. The only difference would be that the interest and discount rates in the group system may differ among the separate banks and there would be no great reason to lower these rates. The branch system, on the other hand, has uniform rates. Owing to the nature of the system, one rate can be (and is) maintained. The group system could maintain uniform rates but is not as inclined to do so.

5. Fiduciary Functions

Excellent diversification in investments and securities is more accessible to members of a multiple banking system. With an increase in the size of the group, the quality and number of investment experts increase. The group system has a slightly superior advantage over the branch system in that the investments are apt to be more diversified because the branches are not separate corporate structures with their own individual investments. The investment service that the banks give their customers is

greatly enhanced by the efficiency of the experts of the multiple banking systems. Again the group system may have a slightly greater advantage over the branch system, but it all depends on the particular organizations.

The group system operates, as only those in a large system can, by having separate trust subsidiaries to facilitate this service to customers. People want a safe system which will afford extended banking services at less cost and with greater efficiency. If the branch banks are large enough, they too, will have a reputable trust service to offer.

6. Bank Examinations

One of the greatest differences between group and branch banking is that of supervision and examination. Although the Banking Laws of 1933 and 1935 clamped down on group banking regulations (1), there still remain the difficulties of examining a group of banks within which there are state and national banks, banks in different states, and banks in different Federal Reserve districts. It is no little task to examine a bank and the group system incurs much expense. It is practically impossible to determine the financial condition of the whole group. The branch banks, on the other hand, belong to one bank and it is, therefore, possible to determine the financial condition of the system

1. Chapman & Westerfield, op. cit., p. 334-5.

as a whole.

7. Extension of Policies

Another point of difference between the group and branch systems is that the amount of flexibility within the group system is not as strong as that of branch banking. The directors of the holding company have to reach the directors of the group banks indirectly, whereas the head office of the branch system has no trouble in putting across its policies to its branches. In regard to some plans, it may be a good point that the holding company cannot put across its policies very easily because in this way a system of checks and balances can be put into operation.

Assistance of one bank to another in a group is not necessary if the bank does not care to help; whereas in the branch system, if one branch needs assistance, the other branches will step in because of the unity of the system. The holding company may repudiate any or all responsibility for its members and may make it a matter of convenience to keep within the group only the most profitable members. Former Comptroller of the Currency Pole was once quoted as saying that

> "'A highly important advantage possessed by branch banking over group banking is the adaptability of the former system for extension into the most remote hamlets, while, generally speaking, group banking facilities are enjoyed only by those communities which are able to support

> a well-managed independent bank. My observation has been that group banking, instead of alleviating the rural banking situation, has as a rule taken over only the stronger local banks in prosperous communities, leaving the weaker institutions struggling for a meager existence.'" (1)

8. Bank Ownership

And finally, as a differentiating point, there is a possibility that in the group system, a greater amount of speculation with bank stock may occur. In order to secure bank control, some bankers have often bought stocks at outrageous prices. Men have been known to buy bank stock, not for the benefit of the communities which the banks served, but for the purpose of selling the stock to holding companies at a profit. These holding companies have little more than bank stocks for assets and should one member fail, there is the danger of others failing - thus weakening the position of the depositor.

9. Personnel

In spite of the differences between group banking and branch banking, there are many advantages shared by both, such as being able to obtain an efficient personnel. Good training opportunities can be accomplished by large banks who can afford instruction and high salaries.

Economy of operation can be maintained when adequate funds and efficient personnel are maintained.

1. "Group Banking and the Branch System," The Bankers' Magazine, Vol. CXXII, No. 2, February, 1931, p. 157.

Banks, as do other businesses, try to keep down costs but at the same time give their customers good reliable service. Adequate reserves, which the larger banks maintain give the communities a faith in the safety of their banks. Unit banks do not have the large supplies of funds from which to draw and do not always attain the respect that larger banks have.

10. Conclusions

It is not possible to say definitely which banking system is better to have in the United States. Some are in favor of the branch system while others prefer the group system. It is possible, however, that more people feel that the branch offers greater unity of policy, uniformity of interest rates, and an ease with which reserves can be mobilized. Group banking has its many advantages by being able to reach into many sections, and should branch banking be allowed this opportunity, many group systems undoubtedly will change to the branch system. As Pole says,

> "Banking groups in the large cities which are thus obtaining control over country banks appear to be driven by economic necessity to using this method of extending the services of the metropolitan banks to the rural communities. They no doubt realize that the method used is more cumbersome and more expensive than branch banking in its proper sense. With the best of intentions, the most capable management and the highest financial responsibility on the part of a central group - and many of these groups meet these high qualifications-

> the group can never be operated with the economy, the flexibility and the singleness of policy which is possible under a branch system." (1)

Multiple banking aims, however, to serve the country more efficiently than that of unit banking, but the type of system used depends, for the most part, on the integrity, ingenuity, and resourcefulness of those who operate either system.

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1. J.W. Pole, "National Banks Need Branches," American Bankers Association Journal. October, 1929, p. 306.

## VI. MULTIPLE BANKING ADMINISTRATION

Sound management is a prerequisite for sound banking. No bank can have a successful existence unless it can secure the confidence and goodwill of the community it serves. It has been said that

> "Probably the best test of the efficacy of a bank or banking system is whether it is making available, when and as needed, the desirable amount of credit and whether it is utilizing to the optimum advantage the community's supply of capital funds." (1)

In order to accomplish this, a bank must use the most scientific form of management it knows how.

Large banks with a great amount of capital have been found to have the soundest banking administration. One of the greatest advantages of branch and group banking is that of sound management. Owing to the large amount of capital obtained by these systems, it has been possible for them to obtain men educated to become bankers and who are skilled in their profession. Small unit banks cannot afford men who are well endowed with the fundamental banking principles. Granting that the management of multiple banking institutions is more efficient, on the whole, than that that of the small unit banks, it will be interesting to understand the workings, for example, of a branch banking organization.

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1. Chapman & Westerfield, op. cit., p. 139.

1. Main Offices

The main office of a system of banks has the same departmental form as that of any unit type of bank. This office carries on the functions of all banks dealing with its community. The essential difference is that it serves people in outside communities by establishing branches in outlying districts. In order to do this, the main office must have an efficient and capable staff which can run the home office and also keep in close contact with its branches. The home office has to have the confidence and faith of its customers and to have established a high reputation in order to gain the goodwill of the communities served by its branches. A more or less typical organization of a branch system would be as follows:

> "Board of Directors which supervises and controls the entire system and operations.
>
> Executive Committee which act for the board between the regular meetings of the board of directors.
>
> Loan Committee which supervises the making of the larger loans.
>
> District Office under superintendent or supervisor who may or may not carry the title of vice-president or some lesser title and who has tentative authorization on loans up to a specific maximum, higher than the authority of the branch manager.
>
> Branch Office under a branch manager, with an Advisory Committee in the larger branches." (1)

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1. Chapman & Westerfield, op. cit., p. 167.

The Board of Directors serves as an advisory board and designates the policies of the bank which are to be carried out by the executive committee and the main office. The main office has its own volume of business to handle, but also acts as a clearing house for its branches. Usually there is a separate department for the supervision of the branches. Also it is found that functions carried on in the main office serve the branches. George F. Rand, President of Marine Midland Corporation, says of his group (which is also applicable to branches) that

> "As standardized forms and equipment are introduced throughout the group, economies will be effected through the employment of the services of this department in making purchases in larger quantities and on better terms than otherwise possible." (1)

It might be said, however, that the setup and administration of the main office and its branches depends principally on the size and experience of the banks.

2. Branches

The branch, although complete in itself, acts principally as an agent for the main office, subject to its control on all matters. The manager of each branch is chosen by the main office and carries out its policies. Willit notes that it is not necessary for a branch to have a full set of officers and directors and for this reason

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1. Willit, op. cit., p. 196.

many operating expenses are cut down (1).

Often managers are sent around to various branches to learn about the economic conditions of several communities. Broadening the scope of a young man in such a way is one of the best known methods for his becoming a good banker. Banking theory must be supplemented with the actual bank management training.

The granting of loans, an important function of banking, must be dealt with carefully. The larger loans are handled by a credit supervisor at the head office or by a loan committee (2). It has often been claimed that because the branch manager is an outsider in the community, he can handle the credit situation much more objectively and with much less risk than a man whose friends are in a position to influence him. The manager should take a financial interest in the community which he serves and should represent his bank to the community and the community to the head office. He is the co-ordinating factor.

3. Mobility of Funds

The need for mobility of funds depends on the geography, the industries, and the use of capital of the regions of the United States. Because the country is so diversified, the facilitation of the mobility of funds is

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1. Willit, op. cit., p. 54.
2. Chapman & Westerfield, op. cit., p. 168.

necessary. It has been advocated by many that this is accomplished much better by the multiple banking system. The unit banks obtain many services from their correspondent banks, among which is loaning. Another source of funds for them is that of the Federal Reserve Banks which furnish nationwide mobility of funds. Many banks, however, do not belong to the Federal Reserve system and find that borrowing from correspondents is not the easiest thing to do. Branch banking affords an easier method of moving funds around the country.

Within the branch banking organization the branches keep reserves at the main office. With adequate supply of funds available, the main office can determine the distribution of funds to branches needing loans.

It is known that in all businesses there occur seasonal, secular, cyclical and random fluctuations. When one company has an upward swing in its business due to a seasonal difference, another business may be at a low point due to some sort of fluctuation. It is at this point that the business needs a loan. Thus an easy movement of available funds is necessary to aid all kinds of business needs. Some unit banks resist borrowing because they dislike other banks to see what kind of financial position they are in. The main office in the branch system, however, can use the surplus funds of one branch to aid that of another of its branches

without weakening the position of the first branch. It is wise to situate the branches in diversified areas in order to maintain security.

The branch banking system eleviates the pyramiding of deposits which is found in unit banking. Unit banks keep surplus funds as reserves in correspondent banks, thus increasing the deposits of the correspondent bank. The correspondent bank may then redeposit the funds in its correspondent bank and so forth. The redepositing results in an extending of deposits. The deposits necessitate legal reserves and, therefore, reduces the total amount of loanable funds. This weakens the system instead of strengthening it (1). The branch system, on the other hand, usually keeps the reserves at the main office and thus there is no pyramiding of these funds. Reserves can be moved about freely within the system without weakening the organization. The retraction of funds in the unit system is apt to cause trouble because of the great sensitivity of the banking system.

4. Multiple Banking Services

The banking services which the branch banks offer are numerous, particularly to business which operate in various sections of the country. Such businesses could enjoy a standardized procedure in their business transactions without

1. Chapman & Westerfield, op. cit., p. 172-3.

having to carry accounts with many different banks. Branch banks offer uniform interest and discount rates. Deposits can be readily credited at the main office and the credit standing of the individual or company is held in one place to be used by the branches.

The value of the single deposit record which can be used in any branch is well recognized. Corporations operating nation-widely, or even world-widely, could find the operation of branch banking much easier and economical to them in their business dealings. Individuals, also, would find it easier to cash checks and do business in various parts of the country. The credit standing of customers is essential to many people who travel constantly. After this war, there will be much world-wide traveling and everything will be done as conveniently as possible.

## VII. THE FUTURE OF MULTIPLE BANKING

### 1. Introduction

It is beyond the scope of economic science to determine definitely the aftermath of this war. It is only possible to discuss the general economic pattern which has followed previous wars, and to make future judgements on the basis of these facts already known. In the early part of this war, future aims were discussed. The fourth point of the Atlantic Charter, drawn up by Roosevelt and Churchill in July 1941, stated that

> "....they (the United Kingdom and the United States) will endeavor, with due respect for their existing obligations, to further the enjoyment by all states, great or small, victor or vanquished, of access, on equal terms, to the trade and to the raw materials of the world which are needed for their economic prosperity." (1)

In order to carry out this resolution, the United States and Great Britain will have many problems to confront, among which will be currency and banking stabilization.

### 2. Demand for Loans

If the people of the United States stopped to think of the position which they will be in after this war, they would realize that besides the fact that they will be the central and dominant power politically and militarily,

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1. Lynn R. Edminster, "International Trade and Postwar Reconstruction," American Economic Review, XXXIII, No. 1 Part 2 Supplement, March, 1943, p. 302.

they will also be the dominant economic power, standing as the greatest creditor nation in the world.

Before discussing the part which the United States will play in the post-war period, it will be helpful to quickly mention some of the financial aims of the nation for the post-war world. As is perfectly evident from a knowledge of economics, no nation can hope to strengthen its position with the international world unless its own domestic position is stabilized. A strong domestic financial position is one of the greatest factors necessary before the country can attempt to be able to have a workable international exchange relationship. In order to do this, the United States will want total trade movement and an expanded world income with co-ordinated banking and currency policies.

The problem of loaning to countries exposed to the fury of war will be one of the greatest questions to be considered. America's foreign policy has always been equality of treatment. We must feed Europe and other areas and supply some of the tools and equipment to get peace-time industry functioning. The problem exists, though, that memories of the ill-fated foreign loans of the nineteen twenties and old war loans are not yet buried. Fear of getting involved in another war may be held by many Americans. The people may feel that loans should go to backward countries, instead, to

improve their productivity and ultimate buying power. Many problems such as these will have to be confronted but no matter where the loans will go, adequate banking facilities will be needed to accomplish the transactions.

3. Foreign Trade

The great amount of trade which will be in evidence after the war will call for simplification of international transactions. An extension of foreign branch banking will aid the situation greatly. In 1930, Mr. Willit said that

> "The United States has been handicapped in the development of its export business because of the poor facilities our banks offer for aiding and financing such business..... Only the very largest banks can employ the experts and maintain the foreign organization that the financing of foreign trade necessitates." (1)

Canadian bankers, at that time, advocated the extension of the branch system by pointing out that

> "Few new problems are encountered, since methods, systems, and routine of foreign branches are essentially the same as of those at home. Perhaps this easy adaptability of its banking system to the needs of world commerce accounts in part for the fact that Canada, though relatively small in population, already ranks fifth of all nations of the world in foreign trade, with four times as much per capita as has the United States." (2)

The United States Government must have realized

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1. Willit, op. cit., p. 24-5.
2. Ibid., p. 229-30.

the need for more adequate foreign banking facilities because in the Banking Act of 1933, an amendment was put through stating that

> "'Provided, however, That nothing herein contained shall prevent any State member bank from establishing and operating branches in the United States or any dependency or insular possession thereof or in any foreign country, on the same terms and conditions and subject to the same limitations and restrictions as are applicable to the establishment of branches by national banks.'" (1)

The Banking Act of 1935 added too, that

> "'The maximum amount of interest or discount to be charged at a branch of an association located outside of the States of the United States and the District of Columbia shall be at the rate allowed by the laws of the country, territory, dependency, province, dominion, insular possession, or other political subdivision where the branch is located.'" (2)

It can be seen, then, that previous to this World War, provisions and regulations of foreign branches were made more outstanding. Foreign trade after this war will be even greater than ever before, providing tariff barriers are not put up. Science has made it possible for world travel to be much faster and much more adequate. There will be, therefore, a much greater chance for total trade movement in the post-war era, thus making competent banking facilities more necessary than ever before. War-torn countries will

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1. Federal Reserve Act of 1913, op. cit., p. 165.
2. Ibid., p. 274.

need supplies for many years and new areas will need developing.

4. The Need for Sound and Flexible Banking Systems

Before attempting to stabilize international banking, the United States must be certain of its own domestic banking. There will be a need for closer cooperation between the government and the private banks. Some kind of definite agreements must be made so that when private banks operate branches abroad, there will be no interference with United States governmental activities concerning monetary stabilization.

As it stands now, there are two proposals for international currency stabilization: the White Plan and the Keynes Plan. These proposals were made in order to avoid some of the unfortunate results which came about after the last war. These countries may want imposed tariffs, exchange controls, devaluation of their currencies, and so forth. To avoid these evils, and to facilitate the restoration and growth of international trade, Mr. Harry D. White (1) and Lord John M. Keynes (2) proposed plans for international stabilization of currency. These plans contain three main elements:

1. Currency stabilization

.....

1. Director of the Division of Monetary Research of the United States Treasury.
2. One of the foremost British economists.

2. The extention of credits to foreign countries

3. The control of domestic finance and the economic policies of member nations. (1)

The method of dealing with these factors differ, but the aim is the same. Both desire a form of international currency, the British plan calling for an International Clearing Union with "Bancors" as currency, and the American plan calling for an international organization with "Unitas" (backed by gold) as currency.

There is no room to discuss the merits of these two plans, but careful consideration should be given them. Whether either plan, or some other plan, be adopted, the private financial organization of the United States should cooperate with the government in carrying out whatever international policy it suggests. Cooperation should begin at home, because before the government and American banks meet on foreign territory, definite relations must be established.

5. Multiple Banking's Part in the Future

In order to aid the policies of the United States government in its dealings internationally, branch and group banking must be assured of the flexibility of their systems. Whether branches are established abroad or members of groups

1. For a full comparison of these plans, see "A Digest of the White and Keynes Plans for Post-war Currency Stabilization," The Chase National Bank, Department of Financial and Business Research, April 28, 1943.

are erected in foreign countries, the responsibility lies with the home office. Each head organization must be certain of its strength and flexibility at home before operating abroad. The confidence of the American people must be so strong that when branches are established in the many countries, the customers abroad can feel the same confidence in the bank as those at home.

There will definitely be a greater trend toward uniformity of banking and monetary systems in the future than there is at present and some method of multiple banking is one way of promoting this uniformity. Although deposit insurance has been established and the agitation for branch banking has been lessened, the idea of branch and group banking has not diminished and probably never shall. The multiple system is ready to step in on a nation-wide scale should the proper time come.

6. Summary

At the present time there is unfortunately no unified system of banking in the United States. Multiple banking has been offered as one solution to the problem, and the controversial aspects have been discussed. It has been seen in the previous chapters the part which branch, group and chain banking have played in the banking history of this country. Foreign countries, using the branch system, have found this method to be satisfactory; but the majority of the people of the United States do not feel that this

system is adequate enough to alleviate the present evils in our unit system.

Bank failures, inadequate banking facilities in many of the communities, and the lack of flexibility in the banking structure are some of the many disadvantages of our present system. Industrial activity has become concentrated ever since the development of the corporation; but banking, which exists to serve the needs of business, has lagged far behind in its development. Many times the controversy of multiple banking has aroused the interest of the public, but nation-wide branch banking has never been established. Since the solution to the problem will be expressed in political action, it is necessary that the people of the United States have an intelligent understanding of the points at issue (1).

The essential features of branch, group and chain banking have been discussed thoroughly and because these systems have had no opportunity to show their true value, they remain alternative solutions to the present banking problems. It has been shown that should some sort of multiple banking be put into operation on a nation-wide scale, the country would be faced with the question of which system to use; branch banking or group banking. It was seen that the chain system had too many disadvantages and that

1. Willit, op. cit., p. 11.

group banking, an outgrowth of this, was a more sound banking method. And, too, some people have felt that in general, branch banking is an even more adequate form than the group system.

The Federal Reserve System, one of the great fundamental changes in our banking structure, has been shown to be based on a multiple banking system. It was seen that there was a need for twelve central banks, and how each of these banks established branches in order to carry out their work efficiently. The need for branches was felt because of the wide regional diversification in this country. The need for unification of control of banking helped to bring about the Federal Reserve System, but that need has only partially been fulfilled because of the small percentage of banks that belong to the system.

Multiple banking administration has proved sound because of the large amount of working capital available. Large banks with a great amount of capital have been able to acquire men who are skilled in the banking profession and who can apply sound principles to the banking structure.

It is not possible to discuss the advantages and disadvantages of the multiple system further. Each chapter has brought out in its discussion the workings of both the unit system and the multiple systems and there are good and bad factors in both. So far the unit bank has, however,

taken precedence over the branch bank, mainly because of the anti-monopolistic feeling which is so prevalent in the minds of the people.

Federal control over banking is, in general, as logical as federal control over the currency system; but fear of too much governmental control is just as strong as fear of private monopolistic control. Federal banking should, nevertheless, cooperate with private banking. There is a definite need for a great amount of cooperation between the two institutions. The future will demand a high degree of flexibility in the banking structure and perhaps a regional development of branch banking may serve the needs of the economy adequately.

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